



MEMORANDUM

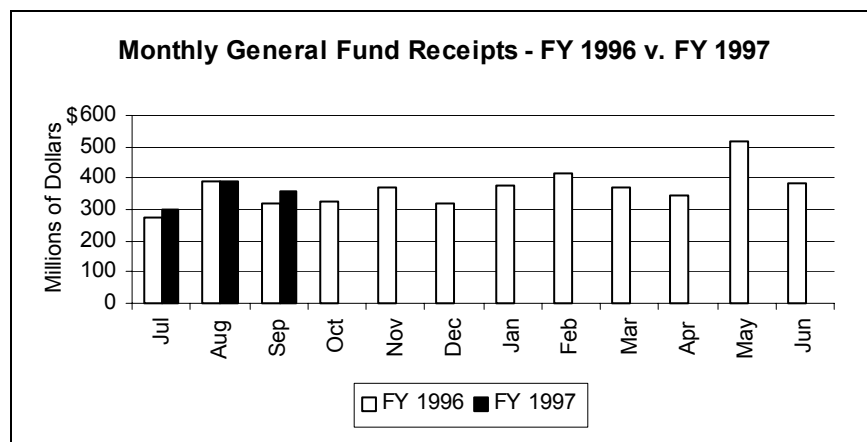
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: October 1, 1996

General Fund Receipts Through September 30, 1996

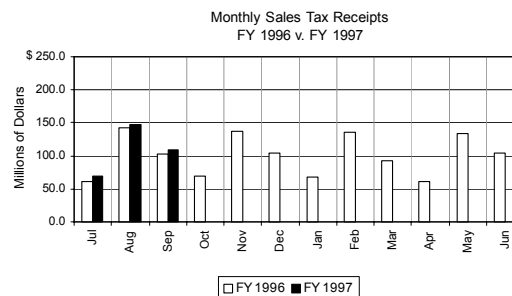
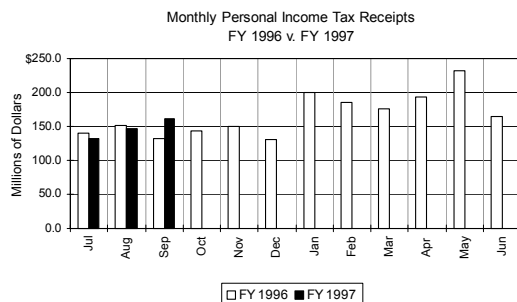
The attached spreadsheet represents total FY 1997 General Fund receipts, with comparable figures for FY 1996. These can also be compared to the latest FY 1997 estimate (\$4.495 billion) set by the Revenue Estimating Conference (REC) on September 25, 1996. The REC revised the FY 1997 total General Fund receipts estimate upward to \$4.627 billion, an increase of \$132.2 million compared to the April estimate. This represents an increase of \$220.4 million (5.0%) compared to FY 1996. The Conference also established a FY 1998 estimate in the amount of \$4.835 billion, an increase of \$208.0 million (4.5%) compared to the revised FY 1997 estimate.



Total year-to-date General Fund receipts for the first quarter of FY 1997 increased 6.3% compared to FY 1996. Tax receipts showed an increase of 7.3%. Personal income tax receipts increased 4.1%. Sales tax receipts were 6.0% higher than the previous fiscal year. Use tax increased 8.2% compared to FY 1996, and corporate income tax receipts showed a 25.6% increase. The first quarter of the current year has had one more processing day than the first quarter of FY 1996.

Gross personal income tax receipts for September were \$29.8 million more than September 1995. However, processing factors contributed almost all of the growth in September. Timing associated with payment of the school district surtax played a significant part in the acceleration in monthly receipts.

Consequently, the year-to-date figure of 4.1% is a better measure of individual income tax activity than the monthly figure. Although estimate payments received in September 1996 did not show up until October last year, the effect is offset by timing factors associated with the change in the withholding tables that occurred in FY 1996. The September REC increased the FY 1997 estimate for individual income tax \$64.1 million to \$2.123 billion, an increase of 6.1% compared to actual FY 1996. Receipts for the remainder of the year will need to grow 6.7% to reach the REC estimate.



Sales tax growth remained strong through the first quarter. Monthly growth in sales tax receipts of 5.9% nearly matched the year-to-date level of 6.0%, and there are no processing issues that would significantly alter this assessment. A recent national retail sales report showing sluggish growth does not appear to reflect retail activity in Iowa. The September REC raised the FY 1997 sales tax estimate \$28.0 million to \$1.278 billion, an increase of 5.4% compared to FY 1996. Sales tax receipts for the remainder of the year will need to grow 5.1% to reach the REC estimate.

Corporate income tax receipts in September were \$1.6 million (6.3%) more than September 1995. Year-to-date receipts exceeded FY 1996 levels by \$13.0 million (25.6%). Nearly all of the annual growth is due to a timing factor associated with the day of the week on which the fiscal year began. If a timing issue relating to the due date for corporate estimate payments is considered, corporate income tax receipts activity is actually lagging last year's levels. The REC increased the FY 1997 estimate for corporate income tax receipts by \$16.9 million in September. The current estimate represents an increase of 4.5% compared to actual FY 1996 corporate income tax receipts.

Franchise tax receipts through the first quarter totaled \$8.9 million, an increase of \$3.6 million (67.9%) compared to actual FY 1996 receipts. The September REC revised the FY 1997 franchise tax estimate upward by \$3.0 million. Prior to the past quarter, there was little evidence that legislation from the 1995 Legislative Session was successful in recovering lost revenues. However, receipts during the final quarter of FY 1996 and the first quarter of FY 1997, as well as an informal analysis of franchise tax returns by the Department of Revenue and Finance, indicate that tax avoidance measures recently utilized by banks may be diminishing substantially. Franchise tax receipts in the last quarter of FY 1996 were 12.0% higher than the last quarter of FY 1995.

Racing and gaming receipts in September declined 25.3% compared to September 1995. Receipts through the first quarter, however, were 22.3% higher than the first quarter of FY 1996. In compliance with HF 2421 (Transportation and Capitals Appropriations Act), which passed during the 1996 Legislative Session, the Department of Revenue and Finance transferred \$46.1 million from racing and gaming receipts to the Rebuild Iowa Infrastructure Fund. The Infrastructure Fund will also receive all gambling revenues exceeding \$60.0 million in FY 1997. The September REC reported they anticipate total racing and gaming receipts to reach \$113.5 million in FY 1997. This level would result in a transfer of \$53.5 million to the Rebuild Iowa Infrastructure Account in FY 1997. The transfer is expected to increase to \$58.1 million in FY 1998.

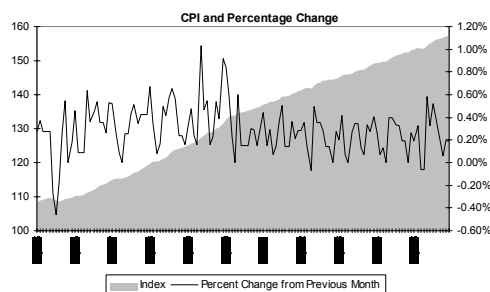
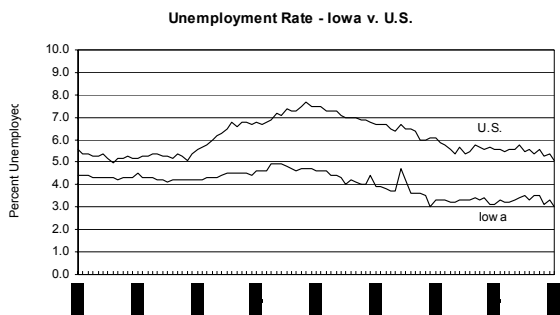
Receipts Compared to REC Estimate

The September REC FY 1997 estimate of \$4.627 billion represents an increase of 5.0% compared to actual FY 1996 General Fund receipts. Assuming each month is expected to increase by the REC estimate, the estimate for the first quarter was exceeded by approximately \$12.8 million (unadjusted for any timing factors). More than one-third of the excess is due to racing and gaming receipts growth, which will not be realized at year's end. Through September, approximately 15.3% of estimated General Fund receipts have been received.

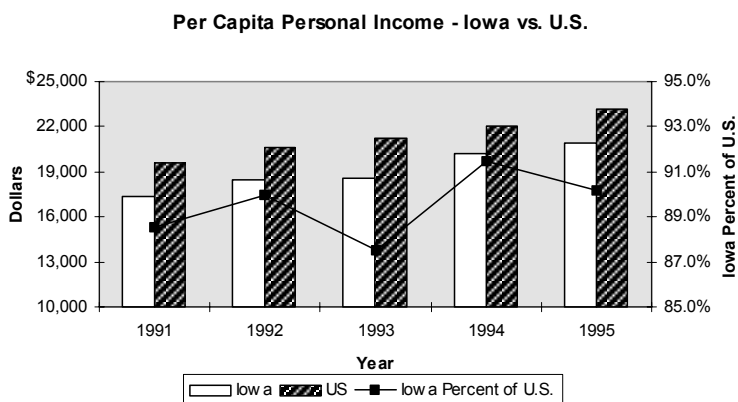
Status of the Economy

The seasonally adjusted percent unemployed for the State decreased three tenths of a point to a record low 3.0% in August. The unemployment rate a year ago was 3.5%. The U.S. unemployment rate dropped 0.3 percentage points to 5.1% in August. The U.S. rate in August 1995 was 5.6%. In spite of strong employment conditions, the Federal Reserve Board chose not to adjust short-term interest rates at its September meeting.

Consumer prices in August increased slightly less than 0.2%. The Consumer Price Index (CPI) through August 1996 was 157.3 (1983=100), which is 2.9% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through July 1996.



The U.S. Department of Commerce released state per capita personal income figures for 1995. Iowa's growth of 3.7% lagged national growth of 5.3%, although Iowa was coming off of a higher base in 1994. Since 1991, Iowa per capita personal income has grown 20.3%, exceeding U.S. growth of 18.2%.



Receipts Information Available On-Line

Information related to State General Fund receipts continues to be made available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). Data is presented graphically and numerically in quarterly, monthly, and daily formats. If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Jon Muller (515-281-4611).

GENERAL FUND RECEIPTS - FY 1997 vs. FY 1996						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1996, through September 30, 1996, in millions of dollars						FY 96 Actual Compared to FY 97 REC Estimate			
	FY 1996		FY 1997		Year to Date	September	Actual	Estimate	% CHANGE
					% CHANGE	% CHANGE	FY 1996	FY 1997	% CHANGE
Personal Income Tax	\$	423.3	\$	440.5	4.1%	22.6%	\$ 2,000.9	\$ 2,123.1	6.1%
Sales Tax		307.7		326.2	6.0%	5.9%	1,213.0	1,278.0	5.4%
Use Tax		50.1		54.2	8.2%	10.5%	207.8	221.3	6.5%
Corporate Income Tax		50.7		63.7	25.6%	6.3%	277.6	290.0	4.5%
Inheritance Tax		22.6		30.4	34.5%	43.7%	95.9	101.0	5.3%
Insurance Premium Tax		0.0		0.1	n/m	n/m	104.3	107.0	2.6%
Cigarette Tax		24.3		25.1	3.3%	14.3%	94.1	95.0	1.0%
Tobacco Tax		1.4		1.5	7.1%	20.0%	5.3	5.5	3.8%
Beer Tax		3.6		3.6	0.0%	0.0%	12.6	12.5	-0.8%
Franchise Tax		5.3		8.9	67.9%	58.6%	26.5	30.0	13.2%
Miscellaneous Tax		1.1		1.3	18.2%	-81.8%	0.9	0.9	0.0%
Total Special Taxes	\$	890.1	\$	955.5	7.3%	14.9%	\$ 4,038.9	\$ 4,264.3	5.6%
Institutional Payments		25.6		26.4	3.1%	1.3%	105.0	104.7	-0.3%
Liquor Transfers:									
Profits		5.0		6.0	20.0%	25.0%	29.0	29.0	0.0%
7% Gross Revenue		2.3		2.3	0.0%	0.0%	9.0	9.0	0.0%
Interest		2.9		1.0	-65.5%	-25.0%	13.5	11.5	-14.8%
Fees		13.9		15.3	10.1%	5.3%	61.7	62.4	1.1%
Judicial Revenue		6.2		6.3	1.6%	0.0%	40.0	40.1	0.2%
Miscellaneous Receipts		17.8		8.9	-50.0%	-55.7%	49.5	46.0	-7.1%
Racing and Gaming Receipts		20.6		25.2	22.3%	-25.3%	60.0	60.0	0.0%
TOTAL RECEIPTS	\$	984.4	\$	1,046.9	6.3%	11.5%	\$ 4,406.6	\$ 4,627.0	5.0%